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FOREWORD

Pension Facts is an annual publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

Robert N. Chiappetta, A.S.A.
Director, Information, Reference and
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American Council of Life Insurance

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MAJOR PENSION AND RETIREMENT PROGRAMS

Half of all full-time workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be over 50 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between persons eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits that generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered unless they are actually receiving benefits.

However, as in the case of life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are those established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, nonprofit religious, educational and charitable institutions, and those set up by individuals who have no employment-related coverage.

Estimates from a Labor Department study of Internal Revenue Service data on private employee pension plans indicate that there were 132,399 Defined Benefit plans with 34,199,000 participants and 319,362 Defined Contribution plans with 15,479,000 participants in the U.S. in 1977.

Pension plans may be self-administered, placed with banks or trust companies, or funded with life insurance companies.

TABLE 1
NUMBER OF PERSONS COVERED BY MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees**	State and Local Employees	OASI†
1940	695	3,565	1,349	745	1,552	22,900
1945	1,470	5,240	1,846	2,928	2,008	41,070
1950	2,755	7,500	1,881	1,872	2,894	61,506
1955	4,105	12,290	1,876	2,333	3,927	74,887
1960	5,475	17,540	1,654	2,703	5,160	91,496
1965	7,040	21,060	1,661	3,114	6,780	103,827
1970	10,580	25,520	1,633	3,624	8,591	120,014
1971	10,880	26,580	1,578	3,596	9,079	122,735
1972	11,545	27,400	1,575	3,739	9,563	125,549
1973	12,485	28,700	1,582	4,040	9,850	129,045
1974	13,335	29,240	1,568	4,057	10,635	132,583
1975	15,190	30,300*	1,564	4,171	11,230	135,744
1976	16,965	NA	1,572	4,210	12,290	138,633
1977	19,205	NA	1,567	4,292	13,124	141,596
1978	21,615	NA	1,580	4,380	13,540*	144,260
1979	23,460	NA	1,567	4,398	13,700*	147,178
1980	26,080	NA	1,533	4,460	13,900*	153,634
1981	27,905	NA	1,483	4,566	13,900*	157,569

NOTES: It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series.

Private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans.

Data for "Other Private Plans," compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces, and provisions for veterans' pensions, are not included.

NA=Not Available.

*Estimated.

**Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Authority Retirement System, the Foreign Service Retirement System, and the

At the end of 1981, insurance company plans covered 27.9 million persons and provided retirement income to 2.8 million individuals.

Government-administered Plans

Government-administered plans, including those for Federal civilian employees, state and local government employees and railroad workers, covered an estimated 19.9 million persons at year-end 1981. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

The most comprehensive government retirement program is the Federal Old-Age and Survivors Insurance (OASI) system, which is part of Social Security, a national social insurance program created in 1935. Some 164 million persons had Social Security earnings credits at the end of 1981. Over 145 million of these workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die, the full range of survivor benefits would be available, or if they reached age 62, they would qualify for retirement benefits). Social Security also includes protection against severe and extended disability through the Disability Insurance (DI) program and against the high costs of medical care for the aged and the long-term disabled through Medicare.

(Serious questions have been raised in recent years about the fiscal integrity of the Social Security system, brought about by changes in economic conditions and demographic projections. Attention is currently being focused on the projected demographic trend in the next century of rising numbers of older persons qualifying for Social Security benefits in relation to a relatively smaller work force that will have to bear the cost of financing their benefits. The system's financing and benefit structure affects the private pension system as well as public sector plans. The life insurance business has been in the forefront in recommending changes to alleviate the problem and assure a strong, viable Social Security system, including continued financing of the system through payroll taxes, rather than general revenues; reform of the method of

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Retirement Plan for Employees of the Federal Reserve System, which includes the Bank Plan and the Board of Governors' plan.

†Includes living workers insured for retirement and/or survivors benefits, including the self-employed, plus dependents of retired workers and survivors of deceased workers who are receiving periodic benefits.

SOURCE: Compiled by the American Council of Life Insurance.

indexing benefits for inflation; later retirement age after sufficient advance notice; coverage of new government employees under Social Security; and incentives to encourage the growth of voluntary pensions and other private retirement saving.)

Actuarially-funded retirement systems for civilian employees of the United States government cover 4.6 million persons.

The Railroad Retirement System, the only retirement system administered by the Federal government for a single private industry, covered 1.5 million persons at year-end 1981, including more than 1 million beneficiaries.

State and local government retirement systems covered an estimated 13.9 million persons at the end of 1981.

TABLE 2
ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000,000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	$ 5,600	$ 6,452	$2,553	$ 4,343	$ 5,154	$13,721
1960	18,850	33,138	3,740	10,790	19,600	22,613
1965	27,325	59,185	3,946	16,516	33,100	19,841
1970	41,175	97,011	4,398	23,922	58,200	38,068
1971	46,400	106,419	4,300	26,532	64,800	40,434
1972	52,300	117,530	4,100	29,978	73,400	42,775
1973	56,085	126,531	3,800	32,283	82,700	44,414
1974	60,810	133,731	3,600	35,366	92,400	45,886
1975	72,210	145,166	3,100	39,248	103,700	44,342
1976	88,990	160,414	3,065	44,089	117,300	41,133
1977	101,520	181,509	2,584	50,832	130,800	35,861
1978	119,110	202,237	2,787	57,677	142,573	31,746
1979	139,180	223,465	2,611	65,914	161,649	30,291
1980	165,845	256,898	2,086	75,802	185,226	26,453
1981	192,735	279,529†	1,126	86,867	209,444	24,539

NOTE: These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plans.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Health and Supplementary Medical Insurance is not included.

†As of September 1981.

SOURCES: Railroad Retirement Board; Social Security Administration, U.S. Department of Health and Human Services; Securities and Exchange Commission; other administrative agencies; and the American Council of Life Insurance.

PENSION PLANS WITH LIFE INSURANCE COMPANIES

There were 27.9 million Americans covered by private pension plans funded with U.S. legal reserve life insurance companies at year-end 1981, an increase of 1.8 million over 1980. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached $192.7 billion at year-end 1981, an increase of 16.2% over year-end 1980 and more than four times the amount of pension reserves held 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers can choose to participate in the investment and actuarial experience of the contract.

Group Pension Plans

Most persons covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of contracts, deposit administration with participation in actuarial, investment or administrative gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer

on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the plan. Normally a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and profit-sharing plans are often used by smaller firms. Almost 2.2 million persons were covered by such plans at year-end 1981. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) plans. Available for more than 18 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees.

At year-end 1981, H.R. 10 plans with life insurance companies covered 485,000 persons, including 15,000 individuals receiving benefits. Assets of these plans were nearly $2.7 billion.

Individual Retirement Accounts (IRAs). These were originally designed for self-employed individuals, persons who do not qualify for a retirement plan at their place of employment, or persons employed for an organization that does not offer a retirement plan. At year-end 1981, there were 1,140,000 individuals who had established IRAs with life insurance companies. Most plans were not yet paying benefits, and reserves totaled $3.3 billion.

Table 4 illustrates the dollar amounts held, by institution, for Individual Retirement Accounts (IRAs) and H.R. 10 plans at year-end 1981.

The Internal Revenue Service's analysis of 1980 individual income tax returns shows that 2,556,522 returns claimed contributions to Individual Retirement Accounts, and the total amount contributed was over $3.4 billion. Almost $2.0 billion in H.R. 10 contributions were reported on 561,280 returns.

TABLE 4
OUTSTANDING AMOUNTS IN IRA'S AND KEOGH PLANS WITH SELECTED FINANCIAL INSTITUTIONS, YEAR-END

(000,000 Omitted)

	IRA Accounts		Keogh Plans		Total		Percent of Total	
Institution	1980	1981	1980	1981	1980	1981	1980	1981
Life Insurance Companies	$3,020	$3,320	$2,510	$2,680	$ 5,530	$ 6,000	16.8%	12.0%
Mutual Funds	795	2,586	3,770	3,634	4,565	6,220	13.8	12.4
U.S. Treasury Retirement	45	42	177	170	222	212	0.7	0.4
Commercial Banks*	NA	16,700*	NA	2,800*	7,700*	19,500*	23.4	39.0
Mutual Savings Banks	2,689	3,405	1,229	1,397	3,918	4,802	11.9	9.6
Savings & Loan Associations	8,100*	10,000*	2,900*	3,300*	11,000*	13,300*	33.4	26.6
Total	NA	$36,053	NA	$13,981	$32,935	$50,034	100.0%	100.0%

NA = Not Available.

*Estimated.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks and American Bankers Association.

The Revenue Act of 1978 liberalized and simplified tax rules for IRAs, including an increase in the IRA contribution limit for employee IRAs. The deadline for establishing and making contributions to IRA plans was extended, penalties for overcontributing to plans were eased, as were rollover provisions.

The Economic Recovery Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans. Based on a special survey of insurance companies it is estimated that funds in Individual Retirement Accounts with insurance companies were $4.6 billion as of June 30, 1982, an increase of 39.3% over year-end 1981.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered $12.8 billion in the assets of tax-sheltered annuities in 1981. These plans covered 2.0 million persons, including 50,000 annuitants in 1981.

Funding Options

Pension plans can be funded in many ways. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, or variable rate of interest and benefit payments. In the latter, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts (see page 16). In 1981, there were 53,030 group pension funds providing variable annuity payouts according to an equity fund index (Table 5). Other indices were used in 10 group variable plans with indices relating to such bases as changes in the cost of living.

"The Language of Pensions" section, which begins on page 50, includes definitions of various types of annuities.

TABLE 5
VARIABLE ANNUITY PLANS IN THE UNITED STATES 1981

(Dollar Amounts in Thousands)

	Group Plans				
	Equity Fund Index	Other Indices	Total Group	Individual Plans	Total (Group and Individual)
IN FORCE YEAR-END 1981					
No. of Plans	53,030	10	53,040	—	—
No. of Persons	1,469,720	74,660	1,544,380	797,730	2,342,110
Reserves					
Variable	$ 3,597,980	$460,560	$ 4,058,540	$3,483,800	$ 7,542,340
Other	6,447,840	333,290	6,781,130	2,305,380	9,086,510
Total	$10,045,820	$793,850	$10,839,670	$5,789,180	$16,628,850
CONSIDERATIONS IN 1981					
Variable	$ 428,620	$ 29,500	$ 458,120	$1,390,780	$ 1,848,900
Other	1,004,540	57,000	1,061,540	471,370	1,532,910
Total	$ 1,433,160	$ 86,500	$ 1,519,660	$1,862,150	$ 3,381,810
VARIABLE ANNUITIES IN COURSE OF PAYMENT — 1981					
No. of Persons Receiving Payments Year-End 1981	18,310	10,840	29,150	11,460	40,610
Annualized Income					
Variable	$ 22,850	$ 32,480	$ 55,330	$ 5,600	$ 60,930
Fixed	169,590	30,040	199,630	13,700	213,330
Total	$ 192,440	$ 62,520	$ 254,960	$ 19,300	$ 274,260

NOTE: The table includes variable and fixed data on plans which provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans which provide an option for a variable annuity payout at retirement are not included. For 1981 there were 510 such groups covering 94,050 persons, and 4,890 individual plans.

SOURCE: American Council of Life Insurance.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the company. Maturities generally range from five to 20 years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans interested in minimizing investment risk.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of restrictions in state laws on the amount of assets life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are not subject to the same investment limitations as the companies'

TABLE 6
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS

	December 31, 1980				December 31, 1981			
Separate Accounts Used Solely for:	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Group Pension Contracts	78	352	19,793	$30,895	78	390	29,642	$38,210
Individual Variable Annuity Contracts	36	173	413,935	1,954	43	208	613,960	2,835
Individual Variable Life Insurance	5	7	52,656	35	6	15	167,943	76
Mixed Purposes	32	9,704	594,064	2,276	34	9,711	243,122	2,531
Total	108*	10,236	1,080,364*	$35,160	115	10,324	1,054,209	$43,652

*Details do not add due to companies having more than one type of separate account, and due to contracts participating in more than one account.

NOTE: Data represent 99% of total life insurance company separate account assets as of December 31, 1981.

SOURCE: American Council of Life Insurance.

general accounts. Life insurance companies can invest up to 100% of separate account assets in common stocks, while the general accounts are limited to holding only a small fraction of assets in common stock. By year-end 1981, 144 U.S. life insurance companies had established separate accounts.

In 1981, $41.4 billion of pension assets were held in separate accounts, about 21% of total pension assets. Separate account assets at year-end 1981 were almost entirely pension assets.

A survey of separate account assets at year-end 1981 (Tables 6 and 7), representing 115 companies and 99% of total separate account assets, showed that 88% of the assets in these separate accounts were used solely for group pension contracts. Further, 33% of these group pension contract assets were invested solely or primarily in common stocks.

TABLE 7
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS USED SOLELY FOR GROUP PENSION CONTRACTS

	December 31, 1980			December 31, 1981		
Invested Primarily In:	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Common stocks	155	13,282	$14,440	162	15,376	$12,733
Publicly traded bonds	47	817	1,505	57	826	1,614
Private placement debt	12	528	1,367	13	556	1,430
Real property	6	425	3,167	13	691	5,685
Real estate mortgages	4	79	70	8	141	280
Short term investments	33	1,198	1,410	35	6,745	2,579
Mixed portfolio, common stocks and publicly traded bonds	36	415	1,441	32	395	1,088
Publicly traded bonds and private placement debt	1	2	4	1	2	5
Real property and real estate mortgages	3	315	1,717	4	393	2,381
Other	55	3,149	5,774	65	4,635	10,415
TOTAL	352	20,210*	$30,895	390	29,760*	$38,210

*Totals differ from those shown in Table 6 due to contracts participating in more than one account.

SOURCE: American Council of Life Insurance.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those funded with life insurance companies represent the oldest type of industrial retirement planning in the United States. Assets amounted to $279.5 billion at the end of September 1981.

Private retirement plans in this category are generally trusteed pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trusteed plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, "pattern" plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

TABLE 3
PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES IN FORCE AT YEAR-END

Year and Types of Plan	Number of Plans	Number of Persons (in thousands)			Payments into Plans in Year[1] (in millions)	Benefits Paid in Year (in millions)	Reserves (in millions)	
		Not Yet Receiving Pensions	Receiving Pensions	Total			Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	$ 640	NA	$ 4,125	—
Deposit Administration Group Annuity[2]	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other[3]	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	$ 935	$ 80	$ 5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	$ 845	NA	$ 7,925	—
Deposit Administration Group Annuity[2]	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other[3]	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	$1,425	$ 180	$11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	$ 695	NA	$11,675	—
Deposit Administration Group Annuity[2]	3,120	NA	NA	1,835	415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	315	NA	2,175	—
Other[3]	3,170	NA	NA	440	190	NA	1,625	—
Total	32,340	4,935	540	5,475	$1,615	$ 390	$18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	$ 850	NA	$14,225	NA
Deposit Administration Group Annuity[2]	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other[3]	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	$2,395	$ 720	$27,350	$ 260
1970								
Deferred Group Annuity	10,280	1,437	518	1,955	$ 725	$ 444	$12,800	NA
Deposit Administration Group Annuity[2]	15,020	5,577	548	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	101	3,350	NA

Other[3]	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,354	1,226	10,580	$3,895	$1,330	$41,175	$4,900
1975								
Group Annuities[4]	54,090	9,105	1,440	10,545	$ 7,260	$2,160	$55,180	$10,900
Terminal Funded Group Plans	3,250	60	85	145	340	110	1,950	60
Individual Policy Pension Trusts[5]	176,410	1,860	100	1,960	1,075	140	5,550	440
H.R. 10 (Keogh) Plans	—	440	10	450	345	10	1,300	150
Tax-Sheltered Annuities	—	915	20	935	750	35	3,150	790
Individual Retirement Accounts	—	435	*	435	315	**	330	40
Other[3]	—	660	60	720	650	65	4,750	140
Total	—	13,475	1,715	15,190	$10,735	$2,520	$72,210	$12,520
1980								
Group Annuities[4]	91,370	17,115	2,110	19,225	$14,820	$4,240	$127,215	$30,230
Terminal Funded Group Plans	5,680	90	145	235	370	295	4,285	90
Individual Policy Pension Trusts[5]	204,300	2,015	135	2,150	1,480	175	7,585	650
H.R. 10 (Keogh) Plans	—	465	15	480	355	30	2,510	330
Tax-Sheltered Annuities	—	1,760	50	1,810	2,010	80	10,280	1,600
Individual Retirement Accounts	—	1,095	5	1,100	700	15	3,020	130
Other[3]	—	960	120	1,080	1,815	125	10,950	380
Total	—	23,500	2,580	26,080	$21,550	$4,960	$165,845	$33,410
1981								
Group Annuities[4]	104,550	18,290	2,310	20,600	$14,505	$4,995	$146,515	$37,290
Terminal Funded Group Plans	5,870	100	160	260	570	340	4,790	590
Individual Policy Pension Trusts[5]	232,930	2,055	140	2,195	1,455	180	8,105	680
H.R. 10 (Keogh) Plans	—	470	15	485	380	35	2,680	310
Tax-Sheltered Annuities	—	1,920	50	1,970	3,450	95	12,815	1,960
Individual Retirement Accounts	—	1,130	10	1,140	655	15	3,320	150
Other[3]	—	1,125	130	1,255	3,975	150	14,510	390
Total	—	25,090	2,815	27,905	$24,990	$5,810	$192,735	$41,370

NA = Not Available.
*Fewer than 2,500.
**Less than $2,500,000.
[1]"Payments into Plans in Year" are incurred premiums after deducting withdrawal credits.
[2]Includes Immediate Participation Guarantee.
[3]Includes data on H.R. 10 plans and tax-sheltered annuities through 1972 and individual annuity plans, certain profit-sharing plans and miscellaneous plans not readily available.
[4]Includes Immediate Participation Guarantee and Deposit Administration plans.
[5]Includes Group Permanent plans and profit-sharing trusts.
SOURCE: American Council of Life Insurance.

TABLE 8
PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH LIFE INSURANCE COMPANIES

(in Millions)

Calendar Year	Number of Persons			Contributions in Year*			Benefits Paid in Year**	Assets
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total		
1930	NA	NA	2.70	NA	NA	—	NA	$ 700
1935	NA	NA	2.53	NA	NA	—	NA	950
1940	3.44	.13	3.57	NA	NA	—	NA	1,400
1945	4.99	.25	5.24	NA	NA	—	NA	2,850
1950	7.20	.30	7.50	$ 1,030	$ 130	$ 1,160	$ 290	6,452
1955	11.60	.69	12.29	2,180	280	2,460	670	16,141
1960	16.30	1.24	17.54	3,520	480	4,000	1,330	33,138
1965	19.10	1.96	21.06	5,600	670	6,270	2,800	59,185
1970	22.00	3.52	25.52	9,720	1,070	10,790	6,030	97,011
1975	24.90	5.40	30.30	19,830	1,600	21,430	12,330	145,166
1976	NA	NA	—	NA	NA	—	NA	160,414
1977	NA	NA	—	NA	NA	—	NA	181,509
1978	NA	NA	—	NA	NA	—	NA	202,237
1979	NA	NA	—	NA	NA	—	NA	223,465
1980	NA	NA	—	NA	NA	—	NA	256,898
Sept. 1981	NA	NA	—	NA	NA	—	NA	279,529

NOTE: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication.

NA = Not Available.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCES: Social Security Administration, U.S. Department of Health and Human Services, and Securities and Exchange Commission.

TABLE 9
DISTRIBUTION OF ASSETS OF NONINSURED PENSION FUNDS
BOOK VALUE END OF YEAR

(000,000 Omitted)

Calendar Year	U.S. Government Securities	Corporate and Other Bonds	Stocks		Mortgages	Cash and Deposits	Other	Total
			Preferred	Common				
1950	$ 1,966	$ 2,828	$ 304	$ 802	$ 102	$ 264	$ 186	$ 6,452
1955	2,992	7,856	612	3,354	321	415	591	16,141
1960	2,683	15,699	776	10,734	1,301	546	1,399	33,138
1965	2,994	23,129	750	25,117	3,385	940	2,870	59,185
1970	3,029	29,666	1,736	51,744	4,172	1,804	4,860	97,011
1975	10,764	37,809	1,188	83,654	2,383	2,962	6,406	145,166
1976	14,713	39,070	1,250	93,359	2,369	2,199	7,454	160,414
1977	20,138	45,580	1,168	96,984	2,497	3,721	11,421	181,509
1978	19,695	53,824	1,274	100,424	2,789	8,110	16,121	202,237
1979	22,459	59,537	1,350	110,943	3,091	8,609	17,476	223,465
1980	28,312	63,910	1,322	128,473	4,085	9,290	21,506	256,898
Sept. 1981	34,739	65,824	1,340	139,180	4,389	9,014	25,043	279,529

SOURCE: U.S. Securities and Exchange Commission.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds, and the Federal government, which operates not only the Social Security system but retirement plans for civilian and military Federal government employees and railroad employees. ERISA covers only private plans but required a congressional study of government pension plans.

Social Security System

Social Security, the largest social and economic program of the Federal government, is financed through taxes on wages and self-employment income and provides benefit payments to retired and disabled persons, their dependents and survivors, as well as covering major medical expenses for the aged and long-term disabled. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes are paid into the Old-Age and Survivors, Disability, and Hospital Insurance (OASDHI) Trust Funds at equal rates for employers and their employees. The tax rate for self-employed persons is nearly one and one-half times the employee rate. Some 164 million persons had Social Security earnings credits at the end of 1981. Of these, 145 million had been in the program long enough to be fully insured for OASI.

A total of $139.4 billion in Social Security taxes (excluding Medicare) was paid in 1981, including nearly $67.1 billion by employers, $66.7 billion by employees and $5.6 billion by self-employed persons. Combined assets of the Social Security Trust Funds for cash benefits totaled $24.5 billion at year-end 1981.

For 1981, Social Security payments amounted to $171.3 billion, including Medicare payments. Table 11 refers only to the retirement portion and the disability provisions.

The Social Security program is based on the concept of wage-related benefits financed by payroll taxes applied equally to private sector employers and employees. It is designed to operate on a "pay-as-you-go" basis, but with a contingency reserve, or "trust fund," that would serve as a cushion so that benefits could be paid when poor economic conditions caused expenditures to exceed income. Social Security is intended to provide a floor of economic protection for elderly persons without making the benefits so high

that private employer-employee plans, personal savings, insurance and investments would be discouraged.

The U.S. Social Security system has undergone many functional changes since Congress passed the Social Security Act in 1935. Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine of 10 employed persons are now covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), Federal employees under any Federal retirement system, certain employees of state and local governments, nonprofit groups (whose coverage is optional), irregularly employed farm and domestic workers and low income, self-employed persons. Retirement benefits under Social Security are payable according to law upon retirement at or after age 62 (benefits are reduced for retirement prior to 65) and after a service requirement is met.

When the program was first created, some social-adequacy types of payments were included. Subsequent changes expanded the system so that it provided minimum benefits[1] and dependents' and survivors' benefits that are weakly related to the earnings on which taxes were paid. The benefit formulas have always been weighted toward lower-paid employees. In the mid-1970s, it became evident that the program was being seriously underfinanced. Short-term as well as long-term actuarial deficits were forecast. The system's financing problems were attributed to poor economic performance coupled with a flaw in the 1972 benefit formula that over-generously adjusted initial benefits for the effects of inflation. In the long run, evolving demographic changes were projected to cause financial problems in the next century. The 1977 Social Security Amendments were designed to correct the system's short-range financing problems and some of the long-range problems by increasing payroll tax revenues and by more equitably adjusting Social Security initial benefit levels. In fact, the 1977 modification to correct the over-indexed automatic inflation adjustment in the benefit formula eliminated about half the projected long-term actuarial deficit. The 1977 law also increased the annual amount of earnings a beneficiary aged 65 or older could have without reduction of Social Security benefits. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be

[1]Legislation enacted in 1981 eliminated the minimum benefit for people first eligible for benefits in 1982 or later.

reduced or stopped because of remarriage. To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

On June 9, 1980, Public Law 96-265, the Social Security Disability Amendments of 1980, was enacted. These amendments made a number of changes in the way benefits are calculated for disabled workers and their families and in the administration of the DI program. The legislation is designed to strengthen incentives for disabled beneficiaries to return to work and to improve accountability under the DI program.

Despite the changes made in the 1977 amendments, the continuing poor performance of the economy has placed the OASI Trust Fund in jeopardy. On October 9, 1980, Public Law 96-403 (the Reallocation of Social Security Tax Receipts Act) was signed into law. This act reallocates portions of the DI tax rate to the OASI Trust Fund for calendar years 1980 and 1981. (Total OASDI tax rates were not changed.) This adjustment was made to place income to the two trust funds on a relatively more even basis during this period, and to allow additional time to deliberate on resolving the impending OASI financial problems.

On October 19, 1980, Public Law 96-473 (titled an Amendment to the Social Security Act) was signed into law. This amendment makes a number of modifications to the earnings test provisions of the law in order to correct certain inequities caused when the monthly earnings test was substantially eliminated by the Social Security Amendments of 1977. In addition, P.L. 96-473 provides for restrictions on Social Security benefits for certain inmates of penal institutions.

On December 5, 1980, Public Law 96-499 (the Omnibus Reconciliation Act of 1980) was signed into law. This act limits benefit retroactivity, except for disability claims, and (with certain temporary exceptions) includes as "covered wages" any payment of an employee's Social Security taxes by his or her employer.

On August 13, 1981, Public Law 97-35 (the Omnibus Budget Reconciliation Act of 1981) was signed into law. This act made several changes to the OASDI program; it included provisions to phase out post-secondary students' benefits, limit the payment of lump-sum death benefits to certain family members, and offset Social Security DI benefits when total disability benefits paid under public plans exceed predisability earnings. Provisions in P.L. 97-35 that would have eliminated the minimum benefit for both current and future beneficiaries were subsequently amended by P.L. 97-123 (see below).

On December 29, 1981, P.L. 97-123 was signed into law "to amend the Omnibus Budget Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act." This legislation restored such benefits for current, but not future, beneficiaries (i.e., the minimum benefit was eliminated only for people who become eligible for benefits after December 1981). To lessen the cash-flow problems of the OASI program, P.L. 97-123 also authorizes interfund borrowing among the OASI, DI, and HI Trust Funds through December 1982, and provides for the coverage, for Social Security tax and benefit purposes, of sick pay during the first 6 months of nonwork.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the Federal government for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System, the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

The largest is the U.S. Civil Service Retirement System which, with 2.7 million active workers on its rolls at year-end 1981, provided benefit payments in 1981 of $17.3 billion to 1.8 million retired workers and their survivors and dependents, and had accumulated assets of $84.4 billion. Employer and employee contributions totaled $22.2 billion in 1981. The share of the employer (the Federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets. The Congressional Budget Office estimates indicate that the Civil Service Retirement Fund's unfunded liability could reach $160.1 billion by fiscal 1984.

The Federal civilian retirement system operates independently of the Social Security system. As a consequence, the pension benefits for Federal plans, which are financed in part by employee contributions and provide for cost-of-living adjustments, are set higher than if they were integrated with Social Security. However, the Civil Service system's retirement program currently includes provisions that encourage Federal employees to retire at a much earlier age than private sector employees. As a result, many Federal Civil Service retirees are also able to qualify for Social Security benefits. In

one recent year, 68% of all Civil Service annuitants age 65 and over were also receiving Social Security benefits.

However, the majority of these retirees become eligible for OASDI benefits through pre-government employment rather than through employment after government retirement. Social Security Administration statistics also show that by December 31, 1975, 98.5% of Federal government workers in positions covered by the Civil Service Retirement System had had some employment under OASDI. Seventy-six percent had enough OASDI-covered employment to qualify for survivor benefits and 40 percent had enough to guarantee themselves eligibility for retirement benefits after age 62. In a study eight years earlier, the comparable percentages were 95% for some OASDI-covered employment, 68% for survivor benefits and 33% for retirement benefits.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the Federal government that covers a single industry. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1981, the Railroad Retirement system covered 477,000 workers and in 1981 paid retirement benefits of $3.1 billion to 447,000 age, service and disability annuitants. In addition, nearly $2.3 billion was paid to some 559,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters

TABLE 10
THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

(in Millions)

Year	Estimated Number of Persons (End of Year)			Contributions During Year*			
	Persons with Wage Credits**	Persons Insured for Retirement Benefits	Assets† (End of Year) (Trust Funds)	Employer	Employee	Self-Employed	Total
1940	44.8	24.9	$ 2,031	$ 319	$ 319	—	$ 638
1945	72.4	40.3	7,121	643	643	—	1,285
1950	82.7	59.8	13,721	1,334	1,334	—	2,667
1955	98.6	71.4	21,663	2,730	2,664	$ 319	5,713
1960	109.4	85.4	22,613	5,632	5,543	701	11,876
1965	121.3	95.8	19,841	8,183	7,991	1,032	17,205
1970	135.9	109.8	38,068	16,643	16,321	1,774	34,737
1975	148.3	124.6	44,342	30,746	30,478	3,036	64,259
1976	150.9	127.4	41,133	34,381	34,080	3,133	71,595
1977	154.0	130.2	35,861	37,724	37,439	3,548	78,710
1978	156.8	132.9	31,746	42,745	42,370	3,768	88,883
1979	159.2	135.8	30,291	49,546	49,084	4,404	103,034
1980	161.8	138.6	26,453	56,036	55,692	4,983	116,711
1981	164.0	144.5	24,539	67,046	66,690	5,598	139,364

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 11
PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired Workers and Survivors of Deceased Workers		Total	
	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)
1940	112	$ 15	100	$ 20	212	$ 35
1945	518	126	770	148	1,288	274
1950	1,771	557	1,706	404	3,477	961
1955	4,474	3,253	3,487	1,715	7,961	4,968
1960	8,517	7,542	6,328	3,703	14,845	11,245
1965	12,089	12,230	8,778	6,081	20,867	18,311
1970	14,845	21,191	11,390	10,672	26,235	31,863
1975	19,301	45,183	12,785	21,740	32,085	66,923
1976	20,024	51,447	13,000	24,218	33,024	75,665
1977	20,826	57,800	13,256	26,776	34,083	84,576
1978	21,372	63,712	13,215	29,154	34,587	92,865
1979	21,953	71,840	13,172	32,423	35,125	104,263
1980	22,537	83,295	13,082	37,217	35,619	120,512
1981	22,972	97,993	12,034	43,003	36,006	140,996

*Benefits include monthly pensions and other payments, and lump sum payments.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 12
FEDERAL CIVILIAN RETIREMENT SYSTEMS
(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			
	Not Yet Receiving Benefits	Receiving Benefits		Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	Assets and Reserves
		Retired or Disabled	Survivors, Dependents								
1950											
Federal Civil Service	1,670	154	18	1,842	$ 307	$ 370	$ 677	$ 176	$ 8	$ 184	$ 4,202
Federal Reserve Board†	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	*	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	*	-	9	2	2	4	**	-	*	27
Total	1,699	155	18	1,872	316	377	693	178	8	186	4,344
1960											
Federal Civil Service	2,154	361	150	2,665	823	787	1,610	700	105	805	10,480
Federal Reserve Board†	20	3	*	23	9	3	12	5	**	5	178
Foreign Service	4	*	*	4	2	2	4	3	**	3	29
Tennessee Valley Authority	10	1	*	11	5	3	8	1	**	1	103
Total	2,188	365	150	2,703	839	795	1,634	709	105	814	10,790
1970											
Federal Civil Service	2,612	662	297	3,571	2,001	1,869	3,870	2,368	429	2,797	23,294
Federal Reserve Board	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	*	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	-	15	12	3	15	7	1	8	226
Total	2,654	672	298	3,624	2,041	1,880	3,921	2,406	432	2,838	23,922
1974											
Federal Civil Service	2,683	939	368	3,990	4,817	2,332	7,149	5,276	785	6,061	34,600
Federal Reserve Board	28	6	1	35	12	1	13	23	2	25	359
Foreign Service	9	3	1	13	30	11	41	42	2	44	104
Tennessee Valley Authority	15	3	1	19	18	4	22	13	1	14	303
Total	2,735	951	371	4,057	4,877	2,348	7,225	5,354	790	6,144	35,366
1975											
Federal Civil Service	2,730	990	382	4,102	6,707	2,534	9,241	6,052	908	6,960	38,351
Federal Reserve Board	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2,782	1,004	385	4,171	6,786	2,553	9,339	6,141	915	7,056	39,248

1976											
Federal Civil Service	2,707	1,038	394	4,139	7,877	2,780	10,657	7,098	1,077	8,175	43,063
Federal Reserve Board	26	6	1	33	36	2	38	26	3	29	494
Foreign Service	10	4	1	15	17	14	31	77	6	83	184
Tennessee Valley Authority	18	4	1	23	25	7	32	18	2	20	348
Total	2,761	1,052	397	4,210	7,955	2,803	10,758	7,219	1,088	8,307	44,089
1977											
Federal Civil Service	2,716	1,097	406	4,219	9,337	2,931	12,268	8,143	1,238	9,381	49,687
Federal Reserve Board	25	7	1	33	44	2	46	29	3	32	495
Foreign Service	10	4	1	15	31	17	48	76	6	82	268
Tennessee Valley Authority	20	4	1	25	30	9	39	20	2	22	382
Total	2,771	1,112	409	4,292	9,442	2,959	12,401	8,268	1,249	9,517	50,832
1978											
Federal Civil Service	2,737	1,148	416	4,301	11,035	3,194	14,229	9,246	1,423	10,669	56,323
Federal Reserve Board	25	7	1	33	49	2	51	31	3	34	550
Foreign Service	10	6	1	17	27	19	46	87	6	93	374
Tennessee Valley Authority	24	4	1	29	38	12	50	23	2	25	430
Total	2,796	1,165	419	4,380	11,149	3,227	14,376	9,387	1,434	10,821	57,677
1979											
Federal Civil Service	2,700	1,190	427	4,317	12,865	3,447	16,312	10,571	1,618	12,189	64,276
Federal Reserve Board	25	7	1	33	53	2	55	33	3	36	652
Foreign Service	10	6	1	17	25	20	45	120	7	127	493
Tennessee Valley Authority	25	5	1	31	49	15	64	25	3	28	493
Total	2,760	1,208	430	4,398	12,992	3,484	16,476	10,749	1,631	12,380	65,914
1980											
Federal Civil Service	2,700	1,248	427	4,375	15,562	3,686	19,248	12,639	1,912	14,551	73,687
Federal Reserve Board	26	7	1	34	61	2	63	36	4	40	851
Foreign Service	10	6	1	17	27	21	48	141	9	150	660
Tennessee Valley Authority	28	5	1	34	60	19	79	28	3	31	604
Total	2,764	1,266	430	4,460	15,710	3,728	19,438	12,844	1,928	14,772	75,802
1981											
Federal Civil Service	2,700	1,321	458	4,479	18,193	4,006	22,199	15,010	2,265	17,275	84,437
Federal Reserve Board	26	7	1	34	47	3	50	39	4	43	823
Foreign Service	11	6	1	18	28	21	49	168	11	179	880
Tennessee Valley Authority	28	6	1	35	70	21	91	32	4	36	727
Total	2,765	1,340	461	4,566	18,338	4,051	22,389	15,249	2,284	17,533	86,867

NOTE: Details may not add to totals due to rounding. Data for Federal Reserve Board are for calendar years. Data for all other plans are for fiscal years.

*Less than 500.

**Less than $500,000.

†Prior to 1970, data include Federal Reserve Bank Plan, which is now noncontributory.

SOURCES: U.S. Office of Personnel Management (formerly U.S. Civil Service Commission); Retirement System of the Federal Reserve Board; U.S. Department of State; and George B. Buck Consulting Actuaries.

and other employees of state, county and city governments. In 1981, such government pension plans paid $13.8 billion in benefits to an estimated 2.4 million retired workers and their survivors and dependents. Assets held by these systems totaled $209.4 billion at year-end 1981. Employers and employees contributed $27.3 billion to the plans, with employers paying 73.3%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About three-fourths of all state and local employees have Social Security; the majority are also covered by their own pension plans.

One problem with elective Social Security coverage for state and local government employees is that several states have benefits formulas that are not properly coordinated with Social Security. Benefits have increased so much that, combined with other retirement benefits, a retired public employee could receive a retirement income above the salary that he or she was earning prior to retirement.

Many proposals have been made recently to improve Federal, state and local government pension plans, particularly with regard to their reporting, disclosure of operations and funding practices. The Congressional study mandated by ERISA found that funding schedules for these plans were often inadequate. The study recommended Federal regulation of public pension plans in a form similar to that of ERISA.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries and pension fund assets were about $10 million.

In 1930, some 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled $90 million, and reserves amounted to $800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the Federally-administered Railroad Retirement System was established.) Contributions to all private pension plans (other than those for railroad workers) were $200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the Federal Social Security program in 1935 made retirement planning more widely applicable on a national scale. By 1940, more than 4 million active workers participated in private pension plans,

with 160,000 retired workers receiving annual benefit payments of $140 million. Reserves totaled $2.4 billion. Contributions to all private pension plans exceeded $300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the deduction of employer pension contributions from the taxable income of employers were significant incentives for the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus was the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants from 1940 to 1945. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950, reserves of private plans reached $12 billion, and benefit payments totaled $370 million. Annual contributions to private plans exceeded $2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was largely attributable to the fact that many plans adopted during World War II, and most pension plans agreed to by collective bargaining, were noncontributory.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence.

The greatest growth in private pension plans in terms of coverage, contributions, beneficiaries, benefit payments and assets occurred in the 1950s. Private plans covered 23.0 million persons and annual contributions reached $5.6 billion by year-end 1960. Reserves increased to $52 billion, and benefit payments totaled $1.7 billion.

The growth in contributions and benefits under private retirement plans slowed during the 1960s, and much of the growth that occurred was due to inflation. At year-end 1970, 36.1 million persons were covered by private pension plans, and contributions were $15 billion. Benefit payments amounted to $7.4 billion, and reserves reached $138 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, some 4.0 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 3.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.4 million active workers were covered by private pension plans, and contributions were about $32.2 billion. From 1970 to 1975, benefit payments more than doubled to $14.9 billion, and reserves increased by 57% to $217.4 billion.

Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have more than doubled since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

1857 New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.

1875 First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.

1880 First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

1892 Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.

1893 First pension plan for public school teachers was established in Chicago.

1901 Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.

1903 Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.

1905 First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.

1905 Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.

1907 The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.

1920 The Federal Civil Service Retirement and Disability Fund was created by Congress.

1921 First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.

1921 Revenue Act of 1921 made employer contributions to profit-sharing trusts tax-exempt. Provisions were extended to pension trusts in 1926.

1935 Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.

1935 Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1972, to provide supplemental security income benefits to persons 65 or older, blind, disabled, with little or no income; in 1977 to

increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

1949 The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.

1949 The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.

1952 College Retirement Equities Fund (CREF) was established as the first variable annuity fund.

1958 Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the Federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.

1958 A provision for U.S. Presidents' retirement benefits and widows of U.S. Presidents' benefits was established as part of the U.S. Code.

1959 Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.

1962 H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act) and was subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.

Early 1960s Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.

1963-1964 The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.

1965 The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

1974 The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.

1978 The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for Federal employees.

1981 The Economic Recovery Tax Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans.

1982 The Tax Equity and Fiscal Responsibility Act of 1982 reduced the benefit and contribution limits for qualified plans, raised the age at which defined benefit plan participants may receive the maximum benefit without actuarial reductions, and decreased the aggregate dollar limit for individuals participating in defined benefit and defined contribution plans.

PENSION TOPICS OF CURRENT INTEREST

Two significant topics relating to pensions are explored in this chapter. The first is the results of a study of expected pension benefits released by the American Council of Life Insurance in October 1982. The second is the Tax Equity and Fiscal Responsibility Act of 1982.

A Study of Pension Coverage and Expected Retirement Benefits

While most studies of expected retirement benefits focus on the newly or presently retired worker, little research attention has been focused on workers 20 to 25 years before retirement. To fill this gap, the American Council of Life Insurance commissioned ICF Incorporated to prepare a report in this area for Council consideration.

The likelihood of benefit receipt for workers and individuals age 40-44 in 1979 was estimated under three assumptions regarding the future growth in pension coverage. The use of alternative assumptions was intended to illustrate the range of effects that changes in pension coverage could have upon benefit receipt and benefit levels at retirement. The three alternative assumptions for coverage growth, shown in Table 15, were:

- No Growth—The no growth case assumes no increase in pension coverage in any industry category for the age cohort being examined during the next 20 years. For example, under the no growth assumption, if 83% of all 40-44 year old workers in the manufacturing industry work in firms with pension plans in 1979, 83% of the 60-64 year old workers in the manufacturing industry are assumed to work in pension-covered firms 20 years later. Under this assumption, aggregate coverage for this cohort remains at approximately 63%.
- Moderate Growth—The moderate growth case assumes that no coverage growth occurs for each cohort in three industries with relatively high coverage in 1979 (mining, Federal government, and state and local government) or in agriculture. Industries with intermediate levels of pension coverage are assumed to experience a total growth in coverage of about 10% during the next 20 years. Low coverage industries are assumed to have a total increase in coverage of roughly 15% during the next 20 years. (See Table 15.) In the aggregate, pension coverage for this cohort increases from 63% in 1979 to 75% in 2000.

TABLE 13
RAILROAD RETIREMENT SYSTEM

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1930	*	*	–	1,400	$ 30	–	$ 30	NA	–	NA	–
1940	1,205	141	3	1,349	65	$ 65	130	$ 114	–	$ 114	$ 136
1950	1,494	251	136	1,881	273	273	546	254	NA	NA	2,553
1960	862	384	408	1,654	298	298	596	626	$ 336	962	3,740
1970	650	444	539	1,633	493	467	960	1,108	663	1,771	4,398
1971	595	440	543	1,578	475	450	925	1,200	802	2,002	4,300
1972	586	447	542	1,575	525	475	1,000	1,350	825	2,175	4,100
1973	589	443	550	1,582	540	500	1,040	1,550	1,015	2,565	3,800
1974	585	457	546**	1,588	1,201	421	1,622	1,710	1,098	2,808	3,600
1975	532	469	563**	1,564	1,209	423	1,632	1,970	1,313	3,283	3,100
1976	541	466	565**	1,572	1,325	465	1,790	2,102	1,469	3,571	3,065
1977	534	464	569**	1,567	1,457	507	1,964	2,245	1,579	3,824	2,584
1978	553	459	568**	1,580	1,520	546	2,066	2,353	1,668	4,021	2,787
1979	545	455	567**	1,567	1,732	682	2,414	2,552	1,810	4,362	2,611
1980	517	451	564**	1,533	1,845	717	2,562	2,839	2,027	4,866	2,086
1981	477	447	559**	1,483	1,971	838	2,809	3,128	2,243	5,371	1,126

NOTE: Details may not add to totals due to rounding.

NA = Not Available.

*Not available separately.

**Figure includes employee annuitants also receiving benefits as dependents of survivors.

SOURCE: U.S. Railroad Retirement Board.

TABLE 14
STATE AND LOCAL GOVERNMENT RETIREMENT PLANS

(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1950	2,600	254	40	2,894	$ 510	$ 395	$ 905	$ 274	$ 26	$ 300	$ 5,154
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015	19,600
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120	50,200
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620	64,800
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335	73,400
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075	82,700
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835	92,400
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725	103,700
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700	117,300
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455	130,800
1978	11,300*	2,050*	190*	13,540*	13,621	5,688	19,309	9,000*	550*	9,550	142,600
1979	11,400*	2,100*	200*	13,700*	15,336	6,069	21,405	10,150*	620*	10,770	161,650
1980	11,550*	2,150*	200*	13,900*	17,532	6,466	23,998	11,500*	710*	12,210	185,226
1981	11,500*	2,200*	200*	13,900*	20,020	7,289	27,309	13,030*	800*	13,830	209,444

NOTE: Beneficiaries are as of June 30. Financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter.

*Estimated.

SOURCE: U.S. Bureau of the Census and U.S. Department of Commerce.

TABLE 15
PENSION COVERAGE GROWTH ASSUMPTIONS

Industry	Industry Coverage Rate, 1979	Age 40-44 Coverage Rate, 1979	Coverage Growth Assumptions (% points per year)			Coverage Rate in 1999 for Age 40-44 Cohort		
			No Growth	Moderate	Higher	No Growth	Moderate	Higher
Federal government	93%	96%	0	0	0	96%	96%	96%
State/local government	88	93	0	0	0	93	93	93
Mining	82	96	0	0	0	96	96	96
Manufacturing	76	83	0	0.33	0.5	83	90	93
Transportation	75	81	0	0.44	0.66	81	90	94
Finance	67	64	0	0.57	0.85	64	75	81
Construction	43	59	0	0.87	1.3	59	76	85
Trade	43	48	0	0.87	1.3	48	65	74
Services	43	46	0	0.87	1.3	46	63	72
Agriculture	19	18	0	0	0	18	18	18
Self employment	14	16	0	0.44	0.66	16	25	29

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

- Higher Growth—The higher growth case assumes growth rates 50% higher than those under the moderate growth case. Aggregate coverage for this cohort is assumed to increase from 63% in 1979 to 79% by 2000.

Unless otherwise specified, the estimates presented used the moderate growth in coverage assumptions. The discussion first presents estimates of benefit receipt for workers and then presents estimates for families.

Current pension coverage rates understate the likehood of an individual worker's future benefit receipt. Although subject to some forecasting uncertainty, expected rates of benefit receipt for workers are consistently higher than reported aggregate levels of coverage, participation and vesting. As Table 16 shows, even with no growth in coverage, over 70% of workers in the 40 to 44 age group or the 50 to 54 age group in 1979 who survive to age 65 can expect to receive pension benefits. Pension benefits include benefits from defined benefit and defined contribution plans, Keogh plans and IRAs.

TABLE 16
CURRENT COVERAGE AND EXPECTED BENEFIT RECEIPT FOR WORKERS IN 1979*

Current Pension Status	Age of Workers in 1979	
	40-44	50-54
Covered	63%	64%
Participating	57	59
Vested	41	50
Vested Benefit from Prior Job**	11	15
Expected Benefit Receipt at Age 65 (As % of workers in 1979 who are alive at age 65)	72%	71%

*"Workers" refers to individuals working in 1979. Some of these individuals may not have worked before or after 1979. The study followed these workers until they reached age 65. The estimates assume no growth in pension coverage for both age groups. (See Table 15.)

**Includes some workers who are currently vested.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

The analysis shows that the degree of understatement is greater for younger workers, trade and service industry workers, and workers with low earnings. Specifically, estimates vary by:

- Age Group—Table 16 shows that workers age 40-44 in 1979 have a greater likelihood of receiving pension benefits at retirement than workers who were age 50-54 in 1979. This occurs

because younger workers will spend a greater proportion of their careers under a more mature pension system. Their benefit receipt is also greater because coverage and vesting provisions have been more liberal during their working careers.

- Industry—Table 17 shows that current coverage rates approach or exceed estimates of expected benefit receipt in high coverage industries (manufacturing, government), but they significantly understate benefit receipt in low coverage industries (trade, services). Participation rates understate expected benefit receipt in all industries except state and local government. This occurs because many workers in low coverage industries eventually become participants and receive benefits through the satisfaction of participation and vesting requirements in their current plan. Alternatively, workers in low coverage industries may expect to receive benefits through future covered employment, either through new plan formation or by changing jobs. "All workers" includes self-employed workers, who typically have a low expectation of benefit receipt.
- Earnings Level—Workers age 40-44 earning less than $10,000 in 1979 are less likely to be covered by a pension plan than higher income workers. However, current coverage rates appear to understate the likelihood of benefit receipt more significantly for lower income workers than higher income workers.

TABLE 17
CURRENT COVERAGE, PARTICIPATION AND EXPECTED BENEFIT RECEIPT FOR WORKERS AGE 40-44 IN 1979*

Industry	Percentage of All Workers, Age 40-44: Covered in 1979	Participating in 1979	Percentage Expecting Benefits
Manufacturing	78%	71%	79%
Trade	47	40	58
Services	47	37	64
State/local government	95	90	90
All private wage and salary workers	63	56	71
All workers	63%	57%	72%

*"Workers" refers to individuals working in 1979. Some of these individuals may not have worked before or after 1979. The study followed those workers until they reached age 65. The estimates assume no growth in pension coverage. (See Table 15.)

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

These estimates of benefit receipt may understate actual benefit receipt because the analysis assumes plan participation and vesting rules did not change over the period of the simulation. If plans liberalize their rules in the future, these estimates of benefit receipt will increase.

The proportion of workers expected to receive pension benefits will increase if coverage rises. As shown in Table 18, the percentage of all workers expected to receive a retirement benefit increases from 72% assuming no growth in pension coverage to approximately 76% under an assumption of moderate growth in coverage. If coverage grows at the rates assumed in the higher growth case, approximately 78% of workers can expect to receive benefits. Thus, increases in coverage appear to improve benefit receipt for the age 40-44 cohort but at a declining rate. Increases in pension coverage should have a more significant effect on benefit receipt for younger cohorts of workers.

The estimates also show that the increase in expected benefit receipt is particularly large in the industries which currently have low pension coverage (trade and services). Benefit receipt for state and local government workers does not change because each assumption for coverage growth assumed that coverage of state and local government workers would not increase.

TABLE 18
EXPECTED BENEFIT RECEIPT FOR WORKERS AGE 40-44 IN 1979 UNDER ALTERNATIVE COVERAGE ASSUMPTIONS*

	Future Pension Coverage Growth Assumption		
Industry	No Growth	Moderate Growth	Higher Growth
Manufacturing	79%	83%	84%
Trade	58	66	72
Services	64	71	73
State/local government	90	90	90
All private sector	71	76	79
All workers	72%	76%	78%

*"Workers" refers to individuals working in 1979. Some of these individuals may not have worked before or after 1979. The study followed these workers until they reached age 65. Coverage growth assumptions are shown in Table 15.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

Although benefit receipt varies with coverage status, it is most sensitive to patterns of lifetime employment. Benefit receipt is highest for career workers. Currently-covered workers who fail to receive pension benefits most frequently do so because they do not work at a job long enough to vest. This is typically a relatively small proportion of covered workers. Table 19, for example, shows that only 6% of workers currently age 40 to 44 who were covered in 1979 are not expected to receive benefits because they fail to vest. On the other hand, 47% of all workers age 40-44 who currently are not covered can be expected to receive benefits (assuming moderate growth in coverage). Of the remaining 53% of workers age 40-44 who are not covered, 32% may never expect to become covered and 21% may become covered, but never vest.

TABLE 19
EXPECTED BENEFIT RECEIPT BY CURRENT COVERAGE STATUS FOR WORKERS AGE 40-44 IN 1979*

Percentage of Surviving Workers:	Coverage Status in 1979		
	Covered	Not Covered	All Workers
Expecting retirement benefit	94%	47%	76%
Expecting no benefit due to:			
—Never covered	0	32	12
—Never vested	6	21	12
Subtotal	6%	53%	24%
Total	100%	100%	100%

*"Workers" refers to individuals working in 1979, some of whom may not have worked before or after 1979. The study followed these workers until they reached age 65. The estimates assume moderate growth in pension coverage. (See Table 15.) In 1979, 63% of workers age 40-44 were covered and 37% were not covered.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

This study found that of the *individuals* (workers and non-workers) who are not expected to receive employer pension, Keogh or IRA benefits at retirement and who were in the 40-44 age group in 1979, 59% will not have worked after 1979. Table 20 shows that 90% of the individuals not expecting pension benefits at retirement will have worked less than 10 years after 1979. However, 23% of the individuals in this age group who do not expect to receive pension benefits will be married to someone who will receive pension benefits.

TABLE 20
DISTRIBUTION OF INDIVIDUALS AGE 40-44 IN 1979 NOT EXPECTED TO RECEIVE PENSION BENEFITS*

Marital Status at Retirement	Estimated Number of Years Worked After 1979				
	None	1-9	10-19	20 or More	Total
Unmarried	21%	10%	3%	0.4%	35%
Married to spouse without pension benefits	26	13	2	1	42
Married to spouse with pension benefits	13	8	2	0.4	23
Total	59%	31%	8%	1%	100%

*"Individuals" refers to workers and non-workers who were age 40-44 in 1979. The estimates assume moderate growth in pension coverage. (See Table 15.) Totals may not add due to rounding.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

Currently-uncovered workers who receive benefits at retirement may receive them because: (1) they eventually work for an employer with a plan, (2) their current employer adopts a plan, (3) they have or will establish an IRA, (4) they receive vested benefits from a previous job, or (5) they will receive joint and survivor benefits from a deceased spouse's pension. To illustrate these possibilities, uncovered workers age 45-54 have other potential sources of retirement benefits than their current employer:

- Approximately 6% currently have vested benefits from previous employment,
- Approximately 6% currently contribute to an IRA, and
- Approximately 27% currently have a spouse who is covered by a pension plan.

Consequently, many workers who are not vested in their current job can still expect to receive pension benefits at retirement.

Expected benefit receipt for families generally exceeds that for individual workers. Because many families have more than one individual in the workforce, family units have a greater likelihood of receiving pension benefits than the same group of people examined on an individual basis. As discussed above, 72% of workers age 40-44 in 1979 can be expected to receive pension benefits at retirement. Because many of the workers who do not receive pension benefits are married to those who do receive them, 85% of married couples can be expected to receive benefits. Table 21 shows that 66% of unmarried individuals can also be expected to receive bene-

fits. This percentage is lower than that for workers because many of these unmarried individuals have never worked.

TABLE 21
CURRENT COVERAGE AND EXPECTED BENEFIT RECEIPT FOR FAMILIES IN 1979*

Current family participation status	Age of Workers in 1979	
	40-44	50-54
Covered	67%	64%
Participating	64	62
Vested	50	54
Expected benefit receipt at age 65		
Married couples	85	76
Unmarried individuals	66	55
All families	77%	68%

*"Families" refers to workers and nonworkers who were age 40-44 or 50-54 in 1979. The estimates assume no growth in pension coverage for both age groups. (See Table 15.) A married couple is considered to be covered, participating or vested if either the husband or wife is covered, participating or vested. Similarly, at retirement, a couple is counted as receiving a benefit if either the husband or wife receives a benefit.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

Table 21 also shows that the current coverage status reported by family units understates the likelihood of a family receiving pension benefits. Although 67% of all families are covered, approximately 76% of married couples and 55% of unmarried individuals age 50 to 54 in 1979 can expect to receive benefits at retirement. Table 21 shows that for the 40-44 age group, these percentages may increase significantly in the future. Although unmarried individuals have a lower likelihood of receiving benefits due to their lower rate of labor force participation, this group will experience a large increase in benefit receipt in the next 20 years. The expected increase in pension receipt may increase the income of unmarried individuals and help to reduce the level of poverty reported for this group.

Potential growth in pension coverage or faster vesting will increase still further the percentage of families receiving benefits. Future growth in pension coverage will increase the percentage of both workers and families who receive retirement benefits. Table 22 shows the percentage of married couples and unmarried individuals age 65-69 who will be eligible for employer pension, Keogh, or IRA benefits in the future under the three coverage growth assumptions used in this analysis. An increase from no growth to moderate

growth in coverage can be expected to yield an increase in benefit receipt from 77% to 81%. Higher growth in coverage could yield an increase in benefit receipt to approximately 83%.

TABLE 22
BENEFIT RECEIPT FOR FAMILIES AGE 40-44 IN 1979 UNDER ALTERNATIVE COVERAGE AND VESTING ASSUMPTIONS*

Family Status at Retirement	Current Policy and Future Pension Coverage			
	No Growth	Moderate Growth	Higher Growth	5 Year Vesting
Married couples	85%	88%	90%	88%
Unmarried individuals	66	70	73	71
All families	77%	81%	83%	81%

*"Families" refer to workers and nonworkers who were age 40-44 in 1979. Five year vesting estimates assume no growth in pension coverage and that no public or private sector plan could have a vesting standard more strict than five years of service.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

Many defined contribution plans already have five year vesting. However, a change to vesting after five years of service in all plans would increase benefit receipt at retirement. Assuming no growth in pension coverage, Table 22 shows that five year vesting would increase the percentage of families in this age group receiving benefits at retirement from 77% to 81%. It would have its most significant impact on individuals who are unmarried at age 65, primarily widows, whose likelihood of benefit receipt would increase from 66% to 71%. The impact of five year vesting on benefit receipt is comparable to the increase in benefit receipt due to a moderate increase in coverage.

Five year vesting would increase the likelihood of benefit receipt for two major groups in this age bracket: (1) workers who are currently covered but fail to become vested; and (2) workers who are not currently covered by a plan *and* do not become vested on subsequent covered jobs. For workers currently age 40 to 44, five year vesting would reduce the proportion of covered workers who fail to vest from 6% to 4%, and the proportion of uncovered workers who fail to vest in future employment from 21% to 17%.

On an industry basis, five year vesting would have its greatest effects on workers currently in the manufacturing industry. This is due both to the widespread use of 10 year vesting in manufacturing

industry plans and the prevalence of plans which already have shorter vesting in other industries (such as the trade and services industries). Nevertheless, five year vesting should have a greater positive effect on younger workers, rather than workers over age 40. This effect should be even more pronounced if pension coverage continues to grow and an even larger percentage of young workers are covered.

Table 23 shows that the growth in pension coverage will have a significant effect on the number of married couples in which both members receive pension benefits. This table also shows that only 10%-15% of married couples with individuals aged 65-69 may not expect to receive a pension benefit in the future.

TABLE 23
PERCENTAGE OF MARRIED COUPLES AGE 65-69 IN 2004 ELIGIBLE FOR PENSION BENEFITS UNDER ALTERNATIVE COVERAGE ASSUMPTIONS*

	Future Pension Coverage Growth Assumption		
Pension Status at Retirement	No Growth	Moderate Growth	Higher Growth
Only one member receiving a benefit	42%	43%	43%
Both members receiving a benefit	43	45	47
Subtotal	85	88	90
No members receiving a benefit	15	12	10
Total	100%	100%	100%

*"Married couples" refers to all couples containing an individual age 65-69 in 2004. Coverage growth assumptions are shown in Table 15.

SOURCE: Pension Coverage and Expected Retirement Benefits. *American Council of Life Insurance.*

Tax Equity and Fiscal Responsibility Act of 1982

The following provisions of this legislation affect pension plans:

The penalty tax on annuity withdrawals. The act imposes a 5% penalty tax on income allocable to any annuity contribution made after August 13, 1982 and withdrawn within the earlier of 10 years or before the annuitant reaches age 59½. Like the earlier version of the legislation approved by the Senate, the act includes an "interest first" rule to be applied for tax purposes to withdrawals from deferred annuities.

Limits on pension plan contributions. The act reduces the maximum annual contributions to a defined contribution plan from $45,475 to $30,000 and the maximum annual benefit under a defined

benefit plan from $136,425 to $90,000. Cost-of-living adjustments for these new limits are temporarily suspended.

Pension plan loans. Loans are not subject to tax if they are to be repaid within five years, and do not exceed the lesser of $50,000 or half the present value of vested benefits (but not less than $10,000). There are some exceptions.

Keogh plans. The act makes changes designed to make the tax treatment of Keogh plans closer to that of corporate pension plans. One example: H.R. 10 contribution limits have been increased to the lesser of 20% of income or $30,000.

"Top-heavy" plans. The act imposes special restrictions on pension plans with contributions heavily weighted toward key employees.

Withholding changes. A flat 10% withholding rate is imposed on interest and dividend payments, and various withholding rates are imposed on pension and annuity payments.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of $67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semi-annually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other consecutive 12-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed until some future date.

Defined Benefit Plan—A pension plan stating either (1) the benefits to be received by employees after retirement or (2) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—Retirement of a participant prior to the normal retirement date, usually with a reduced amount of annuity. Early retirement is generally allowed at any time during a period of 5 to 10 years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age, such as 25, or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets, renders investment advice for a fee, or has authority or responsibility to do so, or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, nonvested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit-sharing plan, such amounts may be allocated to the accounts of remaining participants.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment of the plan, or at the date of the latest liberalization. The maximum

annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans must integrate so that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other. (See *Contingent Annuity Option.*)

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less. This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The Federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons controlling the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the accumulated funds. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company which is separate and apart from its general assets and is generally used for investment of pension assets in common stocks.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified

age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account (usually invested primarily in common stocks).

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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PERIODICALS: A SELECTION OF MAGAZINES WHICH OFTEN INCLUDE ARTICLES ON PENSIONS

Across the Board
Best's Review: Life/Health
BNA Pension Reporter
Business Insurance
Employee Benefit Plan Review
Employee Benefits Journal
Financial Analysts Journal
Institutional Investor
Monthly Labor Review
Pension World
Pensions and Investments
Social Security Bulletin